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STAT

Subject: New Commerce (Census Bureau) Estimate of Ruble Value of Soviet Foreign Trade

1. The Census Bureau has just released a specialized study of the domestic value of Soviet foreign trade for use in their reconstruction of the Soviet input output table for 1972. The study is carefully researched and is clearly the most authoritative one on the subject. Some of the inferences drawn from the study's results, however, in press briefings and articles are misleading.

2. Briefly, the study estimates the value of Soviet imports and exports in domestic rubles at 18.6 percent and 6.8 percent respectively of National Income (Soviet definition) in 1978, the last year covered. In comparisons with Gross National Product (which is larger than national income, Soviet concept, in that it includes services and depreciation allowances), the import share becomes 12.6 percent and the export share 4.7 percent.

3. These figures in domestic rubles give a very different picture for imports than the figures that are most commonly used, based on comparisons of the dollar value of Soviet imports and exports with estimates of the dollar value of Soviet GNP. In terms of dollars for 1978, the import share was 4.8 percent, and the export share, 4.1 percent. In other words, imports are 2-1/2 times larger relative to GNP in terms of domestic rubles than in terms of dollars.

4. The reasons for these large differences are complex. They appear to include the following factors:

- Imports of consumer goods are taxed extremely heavily, and consequently are sold on the retail market at very high and rising prices, which the Soviet people are willing to pay because they are starved for quality, variety and style.

- Premium prices are charged for imports of machinery and other producer goods, partly because of quality differences.

5. The inference drawn by Commerce officials that these calculations demonstrate a greater Soviet dependence on foreign trade than was formerly believed is partly correct. A large part of Soviet imports are goods which, because of their higher quality and technology, can be produced in the USSR only at relatively high cost. The high prices of imported consumer goods, however, also reflect market shortages rather than just high production costs.

6. In its coverage of the Census Bureau releases, the press has treated total Soviet foreign trade as if it represented trade with the West alone. In 1978, hard currency imports were about one-third of the total dollar value of Soviet imports and hard currency exports were a quarter of

total exports. The Commerce study does not calculate the domestic ruble value of hard currency imports or exports. A reasonable guess for the share of such imports in GNP in domestic rubles is 5 percent.

Ed. A. Hewett

The Soviets Aren't That Vulnerable To Economic Sanctions

The director of the Census Bureau, Bruce Chapman, this week announced the results of a study to be released this fall written by Barry Kostinsky and Vladimir Treml concerning the role of foreign trade in the Soviet economy. The authors conclude that when Soviet trade flows are converted at a proper exchange rate, rather than the official exchange rate used in Soviet foreign trade statistics, then the Soviet economy is shown to be substantially more dependent on foreign trade than previously thought.

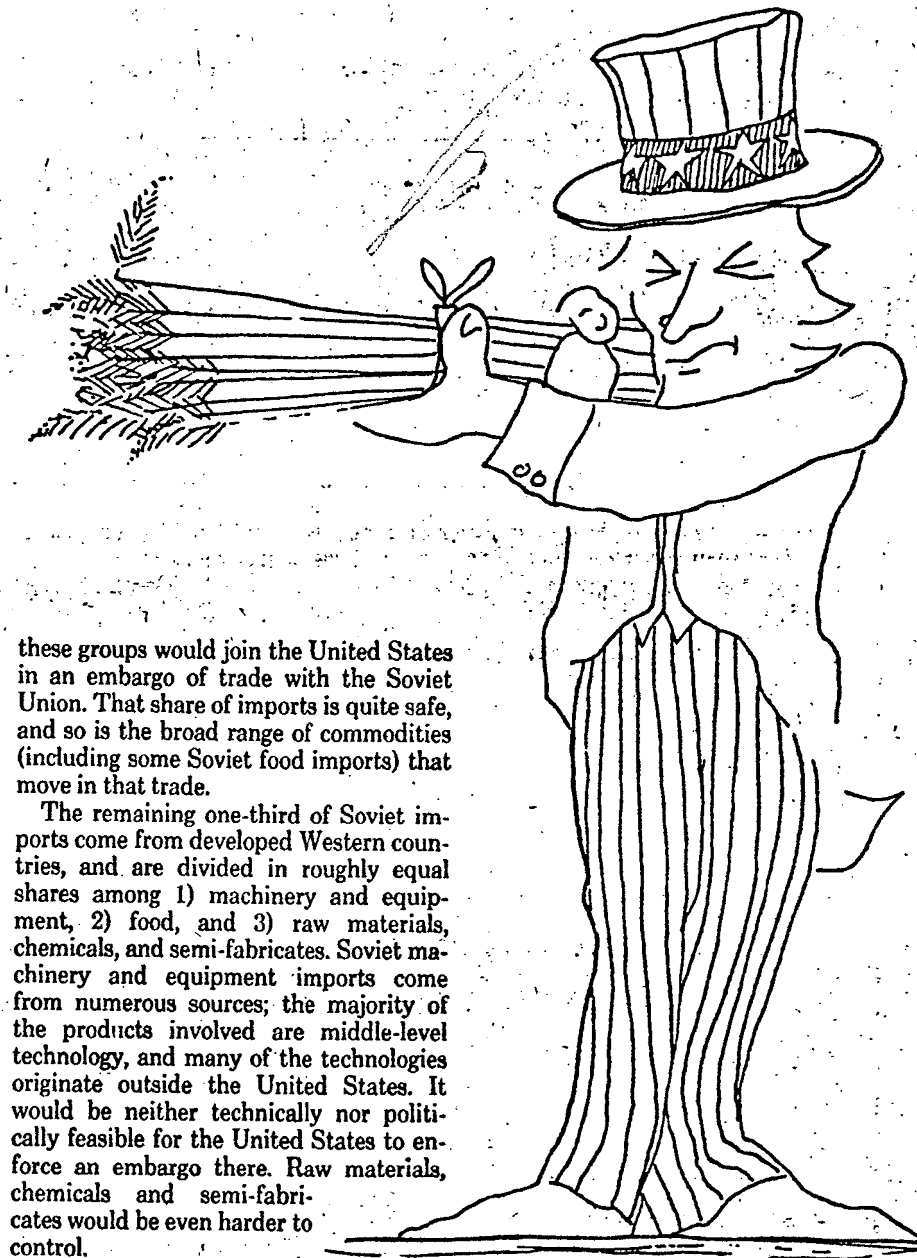
That is most assuredly true, but whether or not that implies the Soviet economy is vulnerable to pressure through economic sanctions is an altogether different matter involving much more complex considerations than these ratios allow.

Kostinsky and Treml calculate that in 1980 imports made up 20 percent of Soviet national income. Adjusting for the fact that the Soviets define national income differently than we define GNP would probably lower the ratio to about 15 percent of Soviet GNP. That ratio places the Soviet economy in the range of countries with relatively low import-to-GNP ratios (for example the United States at 10 percent and Japan at 13 percent), which is indeed higher than the "conventional wisdom" would suggest, but still considerably below rates typical of industrial economies (for example, Germany with 23 precent, Britain, 24 percent, or the Netherlands, 49 percent).

But what does such a ratio mean? Does it, as Chapman says, imply "... that the Soviet Union is [also] far more vulnerable to economic sanctions" than we had thought before? Without in any way denigrating the careful and prodigious data-gathering efforts for which Kostinsky and Treml are justly famous, the attempt to put this particular patina on the study goes way beyond its original purpose, weighing it down with propositions that its data can neither confirm nor deny.

Any economy experiencing even a total embargo in its trade with the world can, under moderately skillful political and economic leadership, contain the damage caused by that embargo if it is relatively well-endowed with natural resources, can produce most of what it imports (albeit at a higher cost to society), and learn to produce that which it needs, but does not produce at the time the embargo is imposed. The Soviet economy is, like it or not, in that position for all commodities except possibly food.

Furthermore, Soviet leaders have no cause to fear a total trade embargo. Two-thirds of Soviet imports are from socialist and developing countries, and neither of these groups would join the United States in an embargo of trade with the Soviet Union. That share of imports is quite safe, and so is the broad range of commodities (including some Soviet food imports) that move in that trade.



By Tom Gibson

The remaining one-third of Soviet imports come from developed Western countries, and are divided in roughly equal shares among 1) machinery and equipment, 2) food, and 3) raw materials, chemicals, and semi-fabricates. Soviet machinery and equipment imports come from numerous sources; the majority of the products involved are middle-level technology, and many of the technologies originate outside the United States. It would be neither technically nor politically feasible for the United States to enforce an embargo there. Raw materials, chemicals and semi-fabricates would be even harder to control.

Food (particularly grains) is the only product group where a few Western countries could *theoretically* form a cartel and embargo shipments to the Soviets. That would indeed do short-term damage to the Soviet economy, since resources would have to be diverted from other sectors to increase grain production, and in the meantime there would be many hungry Russians and a rapid reduction in livestock herds. But our chances of persuading Argentina, Canada and Australia, not to mention the U.S. corn belt, to agree to a grain embargo are nil. If the Soviet leaders are losing sleep over their economic prospects it is not from fear that the United States might form an Organization of Grain Exporting Countries, but from fear that the weather will be awful for yet another year, or that oil and gold prices might continue to fall.

The larger issue behind the Census Bureau's treatment of the Kostinsky-Treml study is the implicit assumption that if Soviet economic performance can be damaged through U.S. economic pressure, it would be a good thing because it would coerce the Soviets into taking measures ultimately in the best interest of the West. That strikes me as a flimsy, dangerously misguided proposition, one that deserves a far more careful analysis than the Reagan administration has given it.

The writer is a senior fellow at the Brookings Institution.

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